FARMERS' NEWSLETTER
Cotton

October 79/C-9

U.S. cotton producers can look forward to exports rising to their highest level in nearly two decades.

The USDA now forecasts cotton exports of about 6.5 million bales in 1979/80. At that level, exports could surpass domestic mill use for the first time since 1937.

However, this bright export picture is dampened by other factors in the cotton market.

In particular, domestic demand is still expected to be relatively weak and domestic supplies excessive. So you should anticipate a sharp increase in stocks this year, with prices coming under pressure later in the season.

STOCKS TO RISE NEARLY 50 PERCENT

	1978/79	1979/80 Projected	1979/80 Range[1]
	Million 480-lb. bales		
Beginning stocks	5.3	4.0	
Production	10.9	14.4	±0.8
Total supply[2]	16.2	18.3	±0.8
Mill use	6.4	6.2	±0.4
Exports	6.2	6.5	±0.9
Disappearance[2]	12.5	12.7	±0.7
Ending stocks[2]	4.0	5.7	±1.0
	Cents per pound		
Farm price	58.8[3]	[4]	
Loan rate[5]	48.0	50.2	

[1] Chances are about 2 out of 3 that the outcome will fall within the indicated range. [2] May not add due to rounding. [3] Average to April 1, 1979. [4] USDA is prohibited from projecting cotton prices. [5] For SLM 1-1/16" cotton.

Largest Cotton Supplies This Decade

Based on October 1 conditions, the 1979/80 cotton harvest appears likely to total nearly 14.4 million bales. Add to this the 4 million bales of carryin stocks and our total supply rises to more than 18.3 million--the most since 1967.

This forecast is still tentative, however, since only 14 percent of this year's crop had been harvested by mid October. Normally, about a fourth of the crop is harvested by that date. Nevertheless, odds are about 2 out of 3 that production will range between 13.6 and 15.2 million bales.

The USDA's October 1 survey indicated that producers are achieving an average yield for all cotton of 528 pounds per harvested acre, a record high. Last season, the average yield was only 421 pounds.

This big jump in yields will result in lower per unit production costs this season for many cotton producers, despite higher prices for production inputs.

Contributing to the rise in average U.S. yields are higher yields in the

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BRIGHT OUTLOOK FOR U.S. EXPORTS

Year beginning August 1	U.S. Exports	U.S. Export availability[1]	Foreign production plus carryin minus consumption
		Million bales	
1974	3.9	9.4	22
1975	3.3	6.7	17.1
1976	4.8	7.6	13
1977	5.5	10.8	13.1
1978	6.2	9.8	11.4
1979[2]	6.5	12.1	10.3

[1] Total supply less domestic use. [2] Projected.

Southwest and West regions. Producers there are expecting yields more than 30 percent higher than last season. In addition, more of this year's cotton acreage is in the West, where yields are usually double the national average.

According to the October survey, 77 percent of this year's cotton crop will be produced in Texas, Oklahoma, California, Arizona, and New Mexico. At the beginning of this decade, these States accounted for only about 50 percent of the U.S. crop.

Tight World Supplies Boost Export Demand

Foreign demand for U.S. cotton is rising due to deteriorating production prospects abroad as well as expected increases in mill use. Foreign mills are likely to top last year's record use of 56.4 million bales.

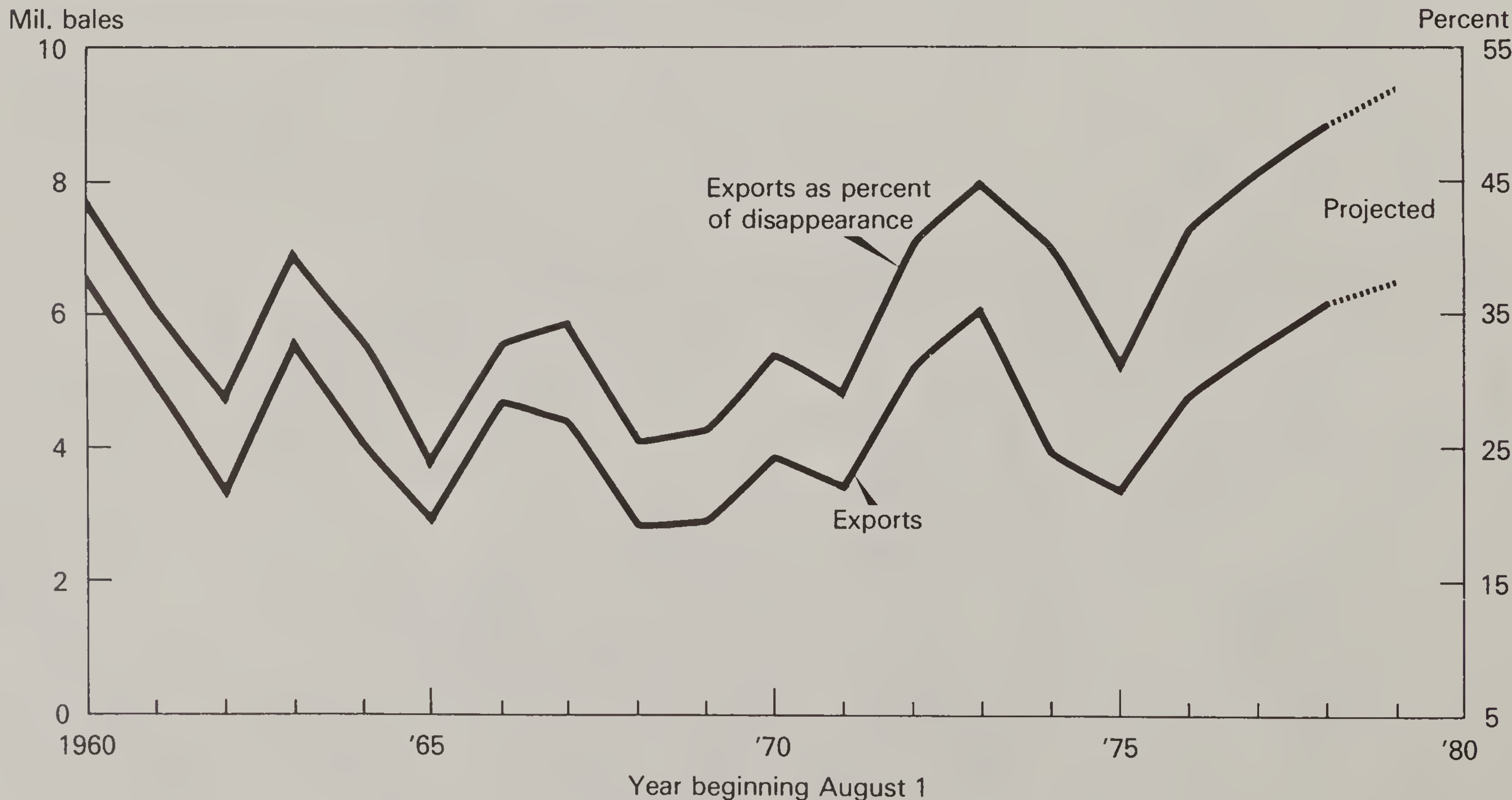
Although foreign production could be up around 1/2 million bales from last season, the decline of 1 million bales in stocks during 1978/79 is keeping foreign supplies tight. So with increased foreign needs and larger U.S. export availability, you can expect your crop to be much in demand in world markets.

Already this season, the U.S. export commitment--shipments plus outstanding sales--stands at 5.3 million bales. This represents over four-fifths of the 6.5 million bales expected to be exported during the current marketing year.

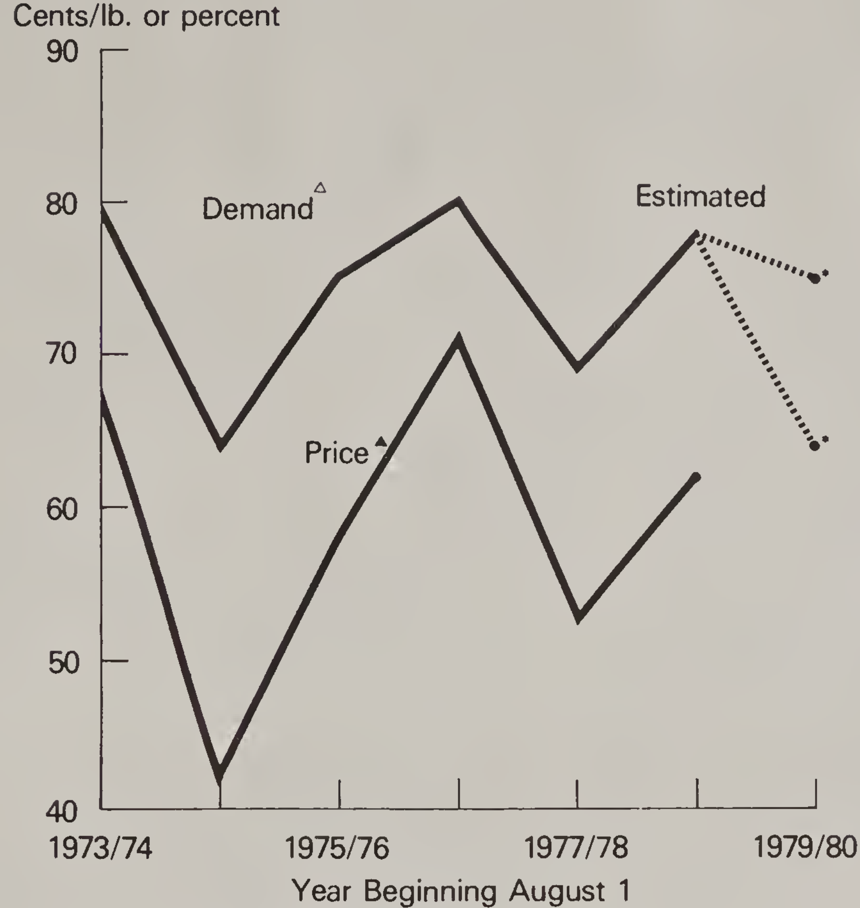
Mill Use To Weaken Slightly

In contrast with the export outlook, use of cotton by domestic mills is

EXPORTS COULD BE HIGHEST IN 19 YEARS



DEMAND OUTLOOK WEAKENS RELATIVE TO SUPPLY



△ Mill use plus exports divided by total supply.
▲ Average for SLM 1-1/16 inch cotton.
* Likely range based on the October Crop Production report and alternative world-wide cotton growing conditions in 1979.

likely to decline again this season. Domestic mill use may total only 6.2 million bales, down 0.2 million from last year.

The price of polyester staple recently rose to within 4 cents of cotton, and U.S. manufacturers have been exporting cotton textiles at a record pace.

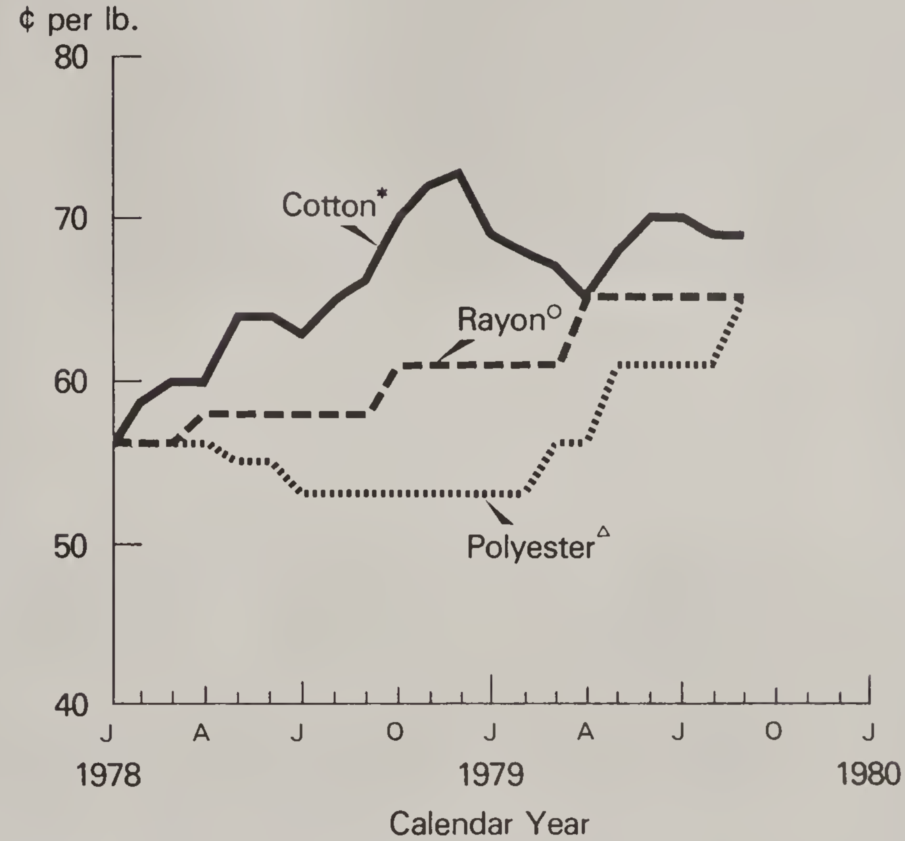
Normally, these factors would probably cause domestic use of cotton to rise. However, the improved competitive position of your cotton will most likely be offset this year by the lagging U.S. economy.

Stocks To Increase

So although export demand will help push total disappearance of U.S. cotton to its highest level in recent years, the large crop being harvested this fall will cause stocks to rise sharply during the season.

By next August 1, domestic stocks could total about 5.7 million bales--

PRICE OF POLYESTER APPROACHING COTTON



*SLM 1-1/16" at group B mill points. △Type 54, 1.5 denier staple.
○1.5 and 3.0 denier, regular rayon staple.

COTTON TEXTILE TRADE GAP NARROWS

*Annual rate for first half of 1979.

up nearly 50 percent from this year's carryin.

Farm Prices Firm So Far

In view of the large crop in prospect this fall, cotton farm prices held up

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surprisingly well during the first 2 months of the new season. They averaged 59 cents a pound in August and September, about 2 cents higher than last year. Spot prices for SLM 1-1/16-inch cotton were also up 2 cents from a year ago, averaging 62 cents a pound.

However, these price levels probably reflect a temporary tightness in the cotton supply resulting from a relatively small carryover plus strong export demand. The late harvest of the current crop is also a factor.

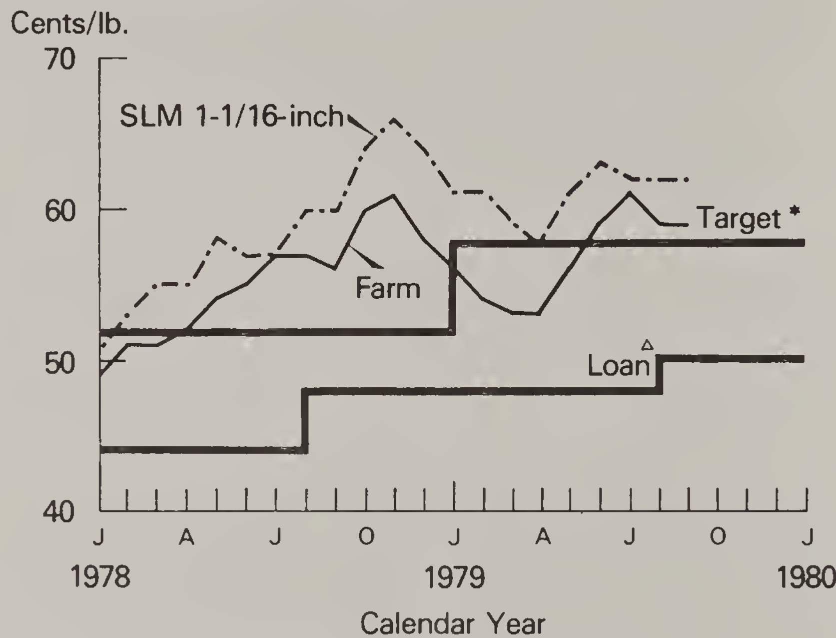
Consequently, prices could come under pressure in coming months as harvesting gathers momentum, thus boosting supplies and stocks sharply.

Whereas 77 percent of last season's domestic cotton supplies were either exported or used by U.S. textile mills, current indications are that only 64 to 75 percent of this season's supply will be used. In recent years, cotton prices have closely followed such changes in the supply/demand balance.

Target Price More Significant

With the prospect of rising stocks and declining domestic mill use, the target price program could be more significant to you this season.

COTTON PRICES LEVEL OFF



* Target price is for calendar year.
△ SLM 1-1/16 inch at average location; for year beginning August 1.

The current target price is 57.7 cents a pound. Deficiency payments will be made if the national weighted average farm price during calendar 1979 falls below that level. During the first 9 months of this year, it averaged around 56 cents a pound. However, whether payments are made and the size of those payments depend heavily on what happens to average farm prices from now through December.

To be eligible for payments under this program, cotton producers who also grew feed grains or wheat must have complied with this year's set-aside requirements for those crops.